WA Oil & Gas: Explorer / Producer

Hartleys

STRIKE OIL LTD

Cashflow Positive, Production Ramping Up

Strike Oil Limited ("Strike", "STX", "Company") has reported a strong quarterly operational result despite choked back production and a weak pricing environment at its assets located on the Gulf Coast, Texas. The Company recorded a net increase in cashflow of A$1.6m and EBITDAX of A$2.1m for the quarter from revenue of A$4.9m. The Company has cash equivalents of A$16m with US$5.3m in debt (interest and principal payments funded by positive cashflow and no repayments required until June 2010).

Production was choked back for routine maintenance and to maximise value of reserves in the low price environment; however, a decision has been made to ramp back up to full capacity following a recovery in the gas price. Current net production is ~6 million cubic feet of gas per day and ~120 barrels of oil per day. We estimate that this is close to the optimal production rate.

Multiple Transformational Assets

USA – Conventional Gas, Appraisal and Exploration

Strike's most mature business is located onshore in the USA, where it has strong production and significant exploration potential. A three to four well drilling campaign is scheduled to commence in December 2009, targeting 30-50 billion cubic feet of gas per well (STX 30%). We estimate the potential value, in a success case, for the drilling program of up to 60cps to Strike. Additional prospects could double this value. Strike also has appraisal potential at its producing assets, which could add up to 27cps.

Australia – Coal Seam Gas, Southern Cooper Basin

A core-hole drilling program at Strike's 66.7% owned PEL 96 permit is scheduled to commence in January 2010. The permit has good potential for coal seam gas ("CSG") and seams have been identified by historical drilling. The independently estimated resource, net to STX, is 5,000-12,000 petajoules of gas in place. Any success could be rapidly commercialised, relative to many other recent CSG discoveries in Australia, due to proximity to gas infrastructure that has spare capacity. Using potential of 5,000 petajoules equates to possible value add, in a success case, of 200cps.

Australia – Coal Gasification, South Australia

Strike has a JORC compliant, 578 million tonne lignite deposit, located in South Australia, through its wholly owned subsidiary, FuturGas. Significant initial work has been done, including successful gasification trials, to determine the commercial viability of the project. The project has potential to feed multiple product streams including ammonia and clean diesel. We estimate upside value from this project at 116cps.

Australia – Shallow Oil Prospect, Offshore Western Australia

Strike is also progressing drilling plans for the Baniyas prospect (40% STX), located in shallow water offshore Western Australia. Negotiations are underway to secure the entirety of the structure, which extends into a neighbouring permit. The prospect may be drilled in 2010 and has potential upside value for STX of 72cps (current equity interest likely to be farmed down prior to drilling).

At Current Price, Investors are Getting a lot for Free

We believe that the core business in the USA alone could justify a higher price than where the Company is currently trading. STX has a strong balance sheet, quality management with a proven track record and huge potential. We rate Strike Oil as a BUY, with a short-term price target of 37cps.

STX.asx
Buy

29 Oct 2009

Share Price:	$0.210
6mth Price Target:	$0.37

Brief Business Description:
Oil and gas producer / explorer with cornerstone assets in the US.

Hartleys Brief Investment Conclusion
Valuation underpinned by US assets. May be re-rated on recently acquired CSG permit.

Chairman & CEO:
Jeffrey Schneider (Chairman)
Simon Ashton (Managing Director)

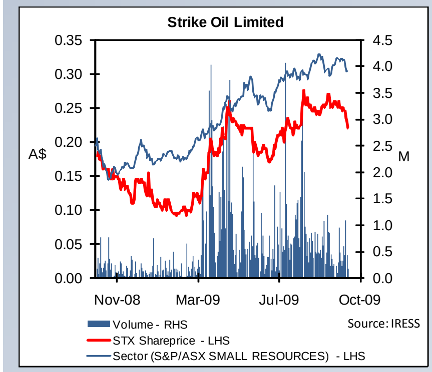
Top Shareholders:
Plato Prospecting Pty Ltd (6.9%)
Calm Holdings Pty Ltd (6.1%)
National Nominees Limited (5.7%)

Company Address:
Level 9, 40 The Esplanade
Perth, WA, 6000

Valuation:	$0.62
Issued Capital:	328.6m
- fully diluted	334.3m
Market Cap:	$69.0m
- fully diluted	$70.2m
Debt (30 Jun '09):	-$5.8m
Cash Equiv (30 Jun '09):	$17.3m

	FY08a	FY09e	FY10e
Prodn (mmboe)	0.220	0.612	0.420
Op Cash Flw	$4.8m	$22.8m	$16.2m
Free Cash Flw	-$14.1m	$7.0m	$6.2m
NPAT* (A$m)	$0.4m	$10.2m	$3.6m
EPS ($, bas)*	0.1x	3.0x	1.0x
P/E (basic)*	177.0x	6.9x	20.6x
EV / EBITDA	20.3x	4.1x	7.0x
DPS ($)	-	-	-
Franking	100%	100%	100%
Dividend Yield	0.0%	0.0%	0.0%
N.D. / equity	18%	17%	16%
Chg in Cash	2.5	4.8	6.9
- per share			
Net Cash End	$13.1m	$13.9m	$22.7m
2P Reserve (bcfe)		19.30	
EV / 2P Reserve		$3.04	

*normalised
Source: Hartleys Research



Authors:
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Oil and Gas Analyst
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Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Strike Oil Limited. See disclosure on back page for details.

SUMMARY MODEL

Strike Oil Limited — **STX**

Share Price **$0.21**

October 2009

BUY

Key Market Information	
Share Price	**$0.21**
Market Capitalisation	$69m
52 Week High-Low	$0.40-$0.115
Issued Capital	328.6m
Issued Capital (fully diluted inc. ITM options)	334.3m
Options	12.8m@$A0.27
Hedging	
Yearly Turnover/Volume	$32.2m/119.7m shares
Liquidity Measure (Yearly Turnover/Issued Capital)	36%
Valuation	
Discounted Cashflow @ 10% Real	$0.62
6 Month Price Target	$0.37

Financial Performance	Unit	FY2008A	FY2009F	FY2010F	FY2011F
Net Revenue	**A$m**	**18.2**	**41.2**	**20.9**	**18.7**
Total Costs/Writeoffs	**A$m**	**(15.3)**	**(26.9)**	**(12.6)**	**(11.2)**
EBITDA	A$m	2.9	14.3	8.4	7.5
Depreciation/Amort	A$m	(2.7)	(4.0)	(2.9)	(2.2)
EBIT	**A$m**	**0.2**	**10.3**	**5.5**	**5.3**
Net Interest	A$m	0.2	(0.1)	0.1	0.5
Pre-Tax Profit	**A$m**	**0.4**	**10.2**	**5.6**	**5.8**
Tax Expense	A$m	-	-	(2.0)	(2.1)
NPAT	**A$m**	**0.4**	**10.2**	**3.6**	**3.7**
Abnormal Items	A$m	-	-	-	-
Reported Profit	A$m	**0.4**	**10.2**	**3.6**	**3.7**

Financial Position	Unit	FY2008A	FY2009F	FY2010F	FY2011F
Cash	**A$m**	**8.4**	**13.3**	**20.1**	**23.0**
Other Current Assets	A$m	12.7	17.8	7.8	6.8
Total Current Assets	**A$m**	**21.1**	**31.1**	**27.9**	**29.7**
Property, Plant & Equip.	A$m	13.0	22.4	20.7	19.7
Exploration	A$m	13.1	13.9	22.7	31.5
Investments/other	A$m	1.6	1.0	1.0	1.0
Tot Non-Curr. Assets	**A$m**	**27.7**	**37.3**	**44.4**	**52.2**
Total Assets	**A$m**	**48.8**	**68.4**	**72.3**	**82.0**
Short Term Borrowings	A$m	1.6	3.0	3.0	3.0
Other	A$m	3.5	18.0	20.9	25.7
Total Curr. Liabilities	**A$m**	**5.1**	**21.0**	**23.9**	**28.7**
Long Term Borrowings	A$m	5.2	4.1	4.1	4.1
Other	A$m	0.4	0.3	0.3	0.3
Total Non-Curr. Liabil.	**A$m**	**5.5**	**4.4**	**4.4**	**4.4**
Total Liabilities	**A$m**	**10.7**	**25.4**	**28.3**	**33.1**
Net Assets	**A$m**	**38.1**	**42.9**	**44.1**	**48.8**

Cashflow	Unit	FY2008A	FY2009F	FY2010F	FY2011F
Operating Cashflow	A$m	4.5	29.3	21.1	13.4
Income Tax Paid	A$m	-	-	(2.0)	(2.1)
Interest & Other	A$m	0.3	(6.5)	(2.9)	0.5
Operating Activities	**A$m**	**4.8**	**22.8**	**16.2**	**11.8**
Property, Plant & Equip.	A$m	(6.6)	(7.2)	-	-
Exploration/Development	A$m	(14.5)	(11.2)	(10.0)	(10.0)
Investments	A$m	2.2	2.6	-	-
Investment Activities	**A$m**	**(18.9)**	**(15.8)**	**(10.0)**	**(10.0)**
Draw/Repay Borrowings	A$m	7.5	(2.2)	-	-
Equity	A$m	17.9	-	0.8	1.1
Financing Activities	**A$m**	**16.6**	**(2.2)**	**0.8**	**1.1**
Net Cashflow	**A$m**	**2.5**	**4.8**	**6.9**	**2.9**

Ratio Analysis	Unit	FY2008A	FY2009F	FY2010F	FY2011F
Cashflow Per Share	A¢	1.5	6.7	4.6	3.3
Cashflow Multiple	X	14.3	3.1	4.5	6.3
Earnings Per Share	A¢	0.1	3.0	1.0	1.0
Price to Earnings Ratio	X	177.0	6.9	20.6	20.1
Dividends Per Share	A¢	-	-	-	-
Dividend Yield	%	-	-	-	-
Interest Cover	X	na	191.3	na	na
Return on Equity	%	1%	24%	8%	8%

Directors	Company Information
Mr David Wrench	Level 9, 40 The Esplanade
Mr Jeffrey Schneider	Perth, WA, 6000
Mr Simon Ashton	Tel: (08) 6103 0999
Mr Tim Clifton	Fax: (08) 6103 0990
	Web: http://www.strikeoil.com.au

Top 10 Shareholders (as at 11/09/07)	m shares	%
Plato Prospecting Pty Ltd	22.52	6.9
Calm Holdings Pty Ltd	20.00	6.1
National Nominees Limited	18.57	5.7
ANZ Nominees Limited	12.33	3.8
S & Y Ashton Nominees Pty	8.53	2.6
Mr James Michael Durrant	8.09	2.5
D B Angliss Pty Ltd	6.00	1.8
Sassey Pty Ltd	5.11	1.6
J P Morgan Nominees	4.51	1.4
Australia Limited	2.80	0.9

Reserves (30 Jun 09)	Unit	1P	2P*
*estimate			
Rayburn / Mesquite	bcfe	9.20	19.30

Production Summary	Unit	FY2008A	FY2009F	FY2010F	FY2011F
*Attributable					
Liquids	mmbbl	0.03	0.08	0.05	0.04
Gas	bcf	1.17	3.21	2.19	1.56
Total	**mmboe**	**0.22**	**0.61**	**0.42**	**0.30**
Daily Production	boe/d	603	1,677	1,152	821

Price Assumptions	Unit	CY2009	CY2010	CY2011	CY2012
US Gas Price	US$/mcf	3.85	6.00	7.00	7.00
Oil	US$/bbl	59.48	70.00	80.00	85.00
Exchange Rate	A$/US$	0.77	0.75	0.80	0.75

Hedging	Unit	FY2008A	FY2009F	FY2010F	FY2011F
Total Forward Sales - Oil	mmbbl	-	-	-	-
Forward Oil Price	A$/bbl	-	-	-	-

Sensitivity Analysis	Valuation ($/s)	NPAT	EPS (¢)	CFPS (¢)
Base Case	**0.62**	**3.6**	**1.0**	**4.6**
Gas Price +-10%	0.62	3.6	1.0	4.6
Gas Price --10%	0.62	3.6	1.0	4.6
Exchange Rate +-10%	0.56	2.5	0.7	4.4
Exchange Rate --10%	0.69	4.9	1.4	4.9
Oil Price +-10%	0.56	3.6	1.0	4.6
Oil Price --10%	0.56	3.1	0.9	4.6

**N.B. NPAT, EPS, CFPS forecasts are for FY2010*

Share Price Valuation (NAV)	$m	$/share
Rayburn (NPV @ 10%)	42.4	0.13
PEL 96 (Risked Valuation)	33.4	0.10
Mesquite (NPV @ 10%)	2.4	0.01
Exploration	89.8	0.27
Hybrid (NPV @ 10%)	38.8	0.12
Cash	16.0	0.05
Corporate Overheads	(14.9)	(0.04)
Total Debt	(5.8)	(0.02)
Tax Losses	0.0	0.00
Options & Other Equity	3.16	0.01
Total	**206.49**	0.62

10% real discount rate used for DCF (~13.3% nominal)

Analyst: David Wall
Phone: +61 8 9268 2826

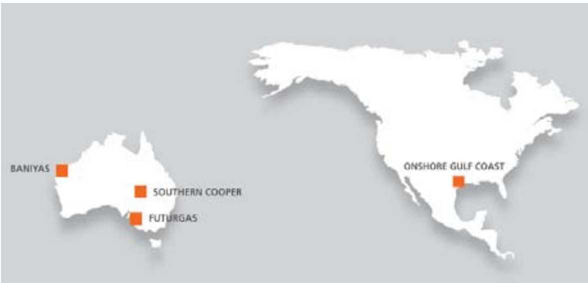
Last Updated: 29/10/2009

Sources: IRESS, Company Information, Hartleys Research

HIGHLIGHTS

Strike Oil Limited is an ASX listed oil and gas explorer/producer [Code: STX], founded in 1997. The Company participated in its first well, Longhorn 1 in the Carnarvon Basin in the same year and continued to focus its operations in Australia, resulting in the 250 billion cubic feet Casino gas discovery in 2003, which was later sold. Shortly thereafter, in 2004, Strike listed its offshore drilling operations as Strike Oil Limited, and its coal seam gas assets as Comet Ridge Limited. Since then the Company has expanded into the USA and increased its operational expertise, achieving its first revenue from the Mesquite discovery in 2006. More recently, the Company has experienced success at Rayburn, also in the USA.

Fig. 1: Project Locations



Source: Strike Oil Ltd

Strike also has interests in Australia, including: a prospective coal seam gas permit in South Australia; a coal to liquids project with a 578mt JORC compliant, brown coal deposit also in South Australia; and a shallow oil prospect, offshore in the Carnarvon Basin, Western Australia.

Strike has a strong track record of identification of quality non conventional resource assets as well as discovery of conventional oil and gas fields.

Fig. 2: Track Record of Success

1996 – Commenced exploration activities as private E&P company
2003 – Discovery of Casino gas field (Otway Basin): 250 Bcf
2003 – Casino sold and funds returned to shareholders
2004 – Comet Ridge; multi Tcf CSG play – capital return to shareholders
2004 – Strike Oil Ltd listed on Australian Securities Exchange
2005 – Secured half billion tonne lignite coal deposit-CTL project
2006 – Discovery Mesquite gas/condensate field (USA)
2007 – Discovery Rayburn gas/condensate field (USA)
2009 – Secured multi-TCF CSG opportunity – Cooper Basin

Source: Strike Oil Ltd

INVESTMENT THESIS

Strike's producing assets at Rayburn and Mesquite provide limited downside risk for the share price as well as exposure to probable increases in US gas prices later this year or early next year. We calculate core asset value of these assets, plus net cash, at 17cps.

The positive cashflow generated from its US assets as well as funds on hand of A$13m enable it to pursue growth from 5 key areas, any one of which could be transformational for the Company. We believe that the diverse nature of the assets has resulted in some market confusion, in turn providing an investment opportunity based on overlooked potential.

Fig. 3: Transformational Potential

Project	Net Resource Potential	Valuation Potential	Indicative Timing
Rayburn	36 bcfe	27cps	2010
USA Gulf Exploration	200 bcfe	>140cps	Possible drilling Dec 09
PEL 96 Southern Cooper CSG	>5,000PJ	>200cps	Initial drilling Jan 2010, resource by late 2010
Baniyas, Shallow Oil	10 mmbbl oil	>70cps	1H 2010
Hybrid Coal to Liquids	60mmbbl	>110cps	Dependant on partner, 2016
Total		**>540cps**	

Source: Hartleys

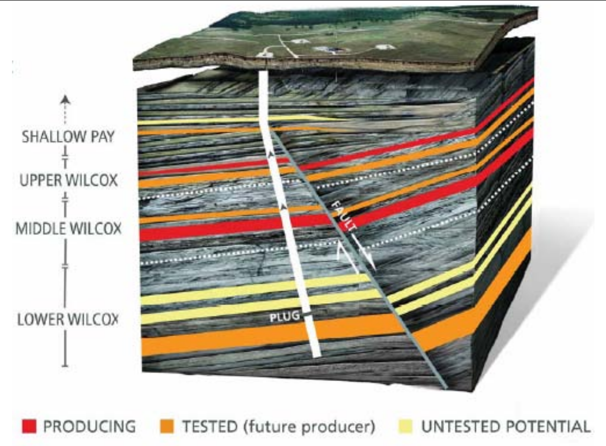
PRINCIPAL ASSETS

Rayburn, Gulf Coast, Texas (STX 22.8%)

Strike's 10,000 acre Rayburn project is located on the petrolific Wilcox trend near Houston. Rayburn is a large structure with multiple target horizons that have the potential to host 200-300bcf of gas. The play focuses on marginal quality reservoirs that are then fracced to produce commercial flows.

Rayburn accounts for the majority of Strike's 1P reserves of 9.1 billion cubic feet of gas equivalent and production of 6 million cubic feet of gas with 120 barrels per day of condensate. The Company estimates that a further net resource of 36.5 billion cubic feet of gas equivalent has been identified "behind pipe" in low to moderate risk pay zones that have exhibited strong commercial potential via logging and/or flow testing. We believe that the strongest of these zones would be reported as 2P reserves by most companies and that there is potential for an incremental re-rating of the Company if an independent 2P reserve is reported in future (see "TESTED (future producer)" in Fig. 4.).

Fig. 4: Pay Zones at Rayburn



Source: Strike Oil Ltd

Fig. 5: Rayburn: Key Statistics

Statistic	Value	Comment
1P Reserves*#	8.5 billion cubic feet of gas equivalent	2P reserve identified behind pipe not reported
Forecast Production Rates#	5.5 mmcf/d gas 100 bpd condensate	Initial rate per well ~10mmcf/d with decline of 40% for yrs 1-3
Geology	Depth: 3,700m Reservoir: Middle Wilcox	
Location	30km SW Houston, Texas	USA
Well Costs	US$5-8m completed (gross)	Costs decreasing due to GFC, low gas prices
Lifting Costs	~US$0.05-0.15 per mcfe	
JV Operator	Cypress E&P (25-30% operator)	

Source: Hartleys, STX,*Hartleys estimated split as at 30 June 2009, #net to STX

Mesquite, Gulf Coast, Texas (STX 26.25%)

The Mesquite project currently produces gas at 0.5mmcf/d (net to STX) with associated condensate from 4 wells. The field has been producing for three years and is in decline from its initial gross production rates of 10-12mmcf/d. It is expected to continue to produce for an extended period, in the order of 10 years. The project has more than paid for itself and no further development is planned in the short-term.

Fig. 6: Mesquite: Key Statistics

Statistic	Value	Comment
1P Reserves*#	0.6 billion cubic feet of gas equivalent	
Forecast Production Rates#	0.5 mmcf/d gas 20 bpd condensate	
Geology	Depth: 3,700m Reservoir: Middle Wilcox	
Location	90km SW Houston, Texas	USA
Well Costs	US$4-6m completed (gross)	
Lifting Costs	~US$0.3-0.5 per mcfe	
JV Operator	Cypress E&P (30-48% operator)	

Source: Hartleys, STX,*Hartleys estimated split as at 30 June 2009, #net to STX

Other Gulf Coast, Texas (STX 30%)

In addition to the Rayburn and Mesquite projects, Strike has a 30% working interest in ongoing prospect generation and drilling on trend with existing discoveries. More than 660 billion cubic feet of gas potential has been identified, with Strike's share being 200 billion cubic feet of gas. A three to four well drilling campaign is scheduled to begin in December 2009, with each well targeting 30-50 billion feet of gross recoverable gas.

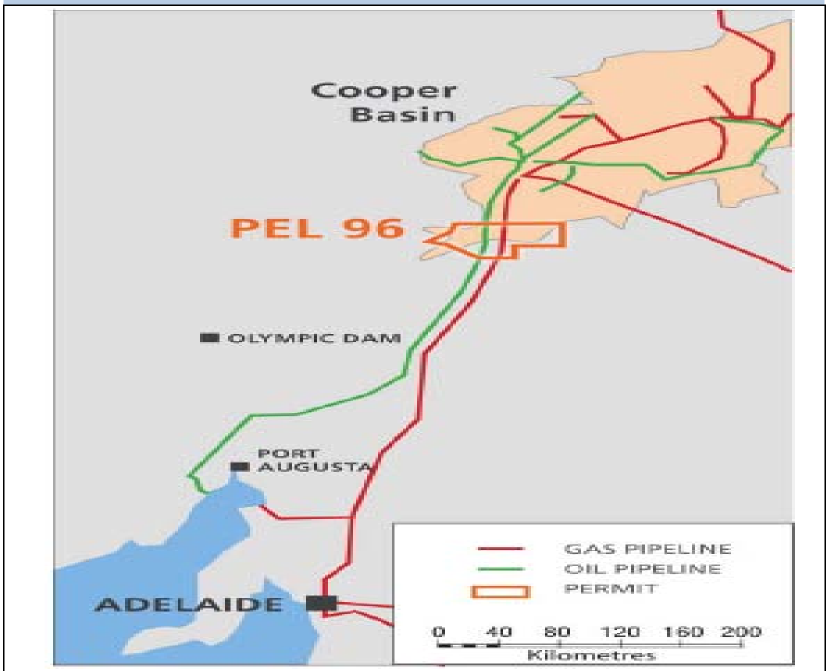
PEL 96, Southern Cooper Basin, Australia (STX 66.7%)

In May 2009, Strike was awarded PEL 96 in the Southern Cooper Basin, South Australia. The permit is prospective for coal seam gas ("CSG") and underground coal gasification ("UCG"). Many key attributes have been defined by existing wells and seismic that was focussed on conventional resources. The Company's initial focus will be on the CSG potential, which has been estimated at 8,000-20,000 petajoules of gas. The resource will be tested by core hole drilling, scheduled to commence early 2010. This will then be followed by pilot production wells, required to confirm initial reserves. It is also worthwhile noting that the core hole program will test the underground coal gasification potential of the coals. The CAD$30m Swan Hills Synfuels demonstration project in Alberta, Canada, recently successfully gasified coals at a depth of 1,400m.

We believe that the potential of the Company's acreage has been overlooked by the market for the following reasons:

1. The coals are identified to be at depths of 900-1,800m compared to 200-1,000m depths of coals targeted for CSG in Queensland and northern New South Wales.
2. The coals are located in central Australia and are deemed to be too far from market to be commercial.
3. The gas content and permeability of the coals is not known.
4. The tenement has only recently been granted and little marketing has been done to date.

Fig. 7: Southern Cooper Project Location



Source: Strike Oil Ltd

We believe that these factors are significantly mitigated by the following advantages of Strike's acreage, with the exception of point 3, which will be crystallised by the planned drilling program:

i. The increased depths of the coals on Strike's acreage are offset by greater seam thickness compared to averages across many other CSG projects. Individually Strike's seams measure up to 18m vs peer average of 5m, and on an aggregated basis Strike has 80m of thickness vs peer average of 30m.

ii. The location of the coals is a positive rather than a negative for several reasons:

   a. The Moomba gas pipeline runs through Strike's permit, providing access to markets in South Australia, New South Wales and Victoria. This means that any development period would not require ramp-up gas to be stored as it could be sold immediately into the pipeline, which currently has 150 TJ/d spare capacity.

   b. We estimate that new projects in the Galilee Basin, located in central western Queensland, would be around $1 per GJ (on a $4 per GJ price) less competitive into the domestic market than Strike's project as these projects would have to pipe gas through the Cooper Basin to access the larger sales markets of New South Wales and Victoria.

   c. The existence of the major pipeline running through the permit significantly decreases development costs associated with infrastructure, more than offsetting increased drilling costs due to depth.

   d. The 150 TJ/d pipeline capacity could support a 0.8mtpa LNG plant at Port Bonython in South Australia, providing potential access to higher pricing via overseas markets.

iii. There are no issues in relation to different ownership of the CSG and UCG rights over Strike's tenements. This has been an issue for other companies, particularly in Queensland.

We view the risk related to realising commercial flow rates from the coals to be mostly technological. There have been large steps forward in terms of understanding the best completion techniques required to achieve optimum results for different types of coals. Whilst this risk is not to be ignored, we believe that results from 3-5 core holes planned for later this year will provide a good insight as to what may be required for a successful pilot production well. The pilot project may commence from mid 2010, with reserves certification possible by the end of 2010.

Fig. 8: Southern Cooper Project Summary

Thick coal seams	Numerous coal seams up to 18 metres thick. Composite thickness up to 80 metres	Attributes based on existing oil wells and seismic
Laterally extensive coal seams	1,800 sq km (or 450,000 acres) in PEL 96	
Depth of coal seams	Coal intersections from 1,000 metres to 1,800 metres (potential as shallow as 900 metres)	
Market access/competition	Unique location to access Eastern States markets, 150 TJ/day capacity available on Moomba to Adelaide pipeline (open access)	
Economics	Scoping economics positive	
Gas contents of the coal	Potential Range: 5 – 10 m^3/tonne	To be determined from drilling, testing and pilot (To commence within 4 months)
Permeability of the coal	Target 100 milli-darcy (md) plus	
Gas CO_2 content	Target less than 2%	
Reserves	Prospective gas in place resource modelled at 7,000 - 19,000 PJ (STX share 5,000 – 12,000 PJ) (MBA Petroleum Consultants – independent confirmation)	

Source: Strike Oil Ltd

Industry Comparisons

The following table lists ASX listed peers to Strike that have coal seam gas assets in Australia. We estimate that Strike's net cash and USA assets are worth $53m. The Company also has a 578mt lignite JORC resource. If the value of these assets were stripped out from the Enterprise Value in the table below it would indicate that very little value is ascribed to Strike's coal seam gas assets by the market (several of the other companies listed also have additional non coal seam gas assets).

The table also illustrates that there are several companies at similar stages of development; with near term corehole drilling, followed by pilot production wells and reserves certification. Commercialisation for many of these companies is dependent on additional industry consolidation as the domestic market, particularly in Queensland, will not support the level of supply from these projects. As well as being a first mover in a new prospective coal seam gas basin, Strike is not hindered by access to the domestic market whilst production ramps up.

Fig. 9: Coal Seam Gas Peers

ASX Code	Enterprise Value	Project / Location	2P (PJ)	3P (PJ)	Resource Potential* (OGIP PJ)	Project Phase	Coal Depth
BOW	$269m	Bowen / Queensland		174	15,000	Pilot to commence Q3/4 09	200-700m
		Surat / Queensland	19	105		Pilot currently producing	200-700m
MPO	$154m	Bowen / Queensland	84	349	3,750	Pilot produced at 1.1mmcf/d	200-700m
		Clarence Moreton				Pilot producing at 200mcf/d	200-700m
ICN	$153m	Surat / Queensland			5,700	3 pilots drilled	650-810m
VPE	$114m	Surat / Queensland	45	90	2,000	Pilot currently testing, coreholes Q3 09	200-700m
BUL	$102m	Surat, Bowen / Queensland			6,034	Coreholes Q3/4 09, pilot Q1/2 10	200-700m
		Galilee / Queensland			15,250	Coreholes Q1/2 10, pilot Q2/3 10	800-1,400m
MEL	$83m	Clarence Moreton / New South Wales	264	1,419	5,000	Pilot producing at 200mcf/d	200-800m
COI	$77m	Galilee / Queensland			36,000	Coreholes Q4 09, pilot mid 2010	800-1,400m
		Surat, Bowen / Queensland			1,000	1 corehole drilled, 2 more scheduled. Pilot from Q2 10	500m
		Greymouth / New Zealand				Coreholes Q3 09, pilot from Q1 10	800-1,400m
STX	$65m#	Southern Cooper / South Australia			12,000	Coreholes Q3/4 09, pilot Q2 10	900-1,800m
EXE	$44m	Galilee / Queensland			10,000	Coreholes Q3/4 09, pilot Q1/2 10	800-1,200m
ECU	$39m	Galilee / Queensland			10,000	Pilot drilled, awaiting test, coreholes planned	800-1,400m
WCL	$25m	Bowen / Queensland		211	1,682	Pilot wells currently testing	550-950m

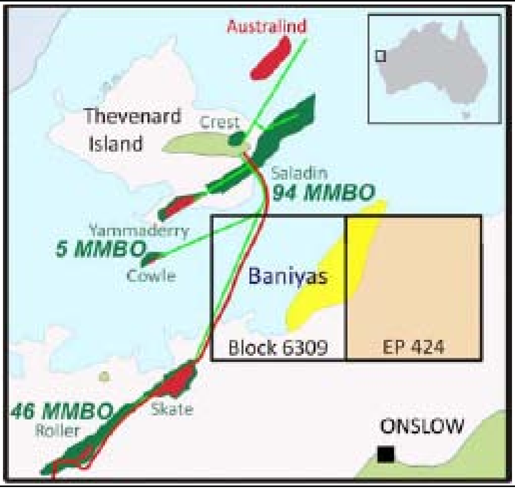
Source: Hartleys, *Original Gas In Place, #$47m value of producing assets included in Enterprise Value

EP-424, Baniyas Prospect, Carnarvon Basin, Australia (STX 40%, operator)

Strike holds several large working interests in permits located in shallow water in the Carnarvon Basin, the most significant of which is permit EP-424. This permit contains the largest undrilled shallow water prospect in the Carnarvon Basin, Baniyas, which has a mean recoverable potential of 24 million barrels of oil.

Strike is in the process of securing rights over the entire Baniyas prospect, as it extends into the adjacent permit, which is owned by the Thevenard Island Joint Venture, operated by Chevron. It is possible that this process may be completed in the near term, with drilling achievable in 1H 2010.

Fig. 10:Baniyas Prospect



Source: Strike Oil Ltd

Hybrid Energy Australia Pty Ltd - FuturGas Project

Through its wholly owned subsidiary, Hybrid Energy Australia Pty Ltd, Strike owns a 578mt, JORC compliant, lignite (brown coal) resource in South Australia. Hybrid has an office in Adelaide where the technical management of the project is carried out.

The project is considered a clean coal project, which will aim to use the coal for power generation as well as coal to liquids ("CTL") technology to provide transport fuels, with CO_2 side products being injected into nearby underground structures in the Otway Basin. A recent agreement between Hybrid and the University of Adelaide should help the Company develop the most efficient and environmentally friendly combustion and gasification method for processing the lignite. The University has many years of research expertise in this area and will aid in the development of a Feasibility Study. This Feasibility Study is earmarked for completion in 2010, with an Environmental Impact Study planned for public review and comment in 2011.

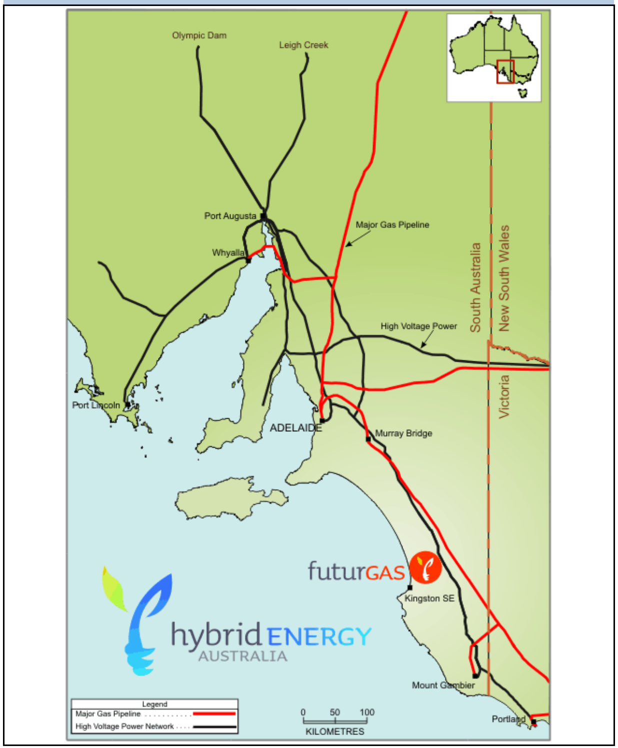
Upon completion of the Feasibility Study a surface mine is planned, located 25-30km from the electricity transmission line linking Victoria and South Australia. The Company believes there is potential for production of 10,000 barrels of fuel per day and 40MW of electricity.

Strike's FuturGas project differentiates itself from similar projects in several ways:

- The Company's resource is JORC compliant, with over 550 boreholes of supporting data. It also has upside potential of 1bt.
- It is located close to infrastructure in an energy-starved State. This reduces costs and means that the project should be well supported by the local government.
- The FuturGas project is located close to suitable geological structures that can be used to store CO_2 emissions. The possibility exists that the structures are also used as storage for emissions from other projects.

Strike has also completed substantial technical work related to processing of the coals including gasification trials, for which initial results have been very encouraging.

Fig. 11:FuturGas Project Location



Source: Strike Oil Ltd

The Company plans to fund the project via private equity, Joint Venture or IPO. We do not believe any value from this project is reflected in the current share price. Each of the funding options available to Strike will effectively set a price for this asset and lead to a possible re-rating of the Company.

Relevant Transactions

There have been several recent transactions in the coal to liquids space that provide an indication of the potential value of FuturGas, purely at an asset level (the coal resource) and also if the technology can be proven.

In August 2009, Samsung Corporation invested $40m for a 2% direct interest in the Perdaman Chemicals and Fertilisers' project based in Collie, Western Australia. The investment implies $2b value for the $3.5b capital urea project. The project will purchase 2.7mtpa of sub-bituminous coal from Griffin Coal. Coal gasification technology will then be used to convert the coal into urea granules for export to make fertiliser.

Earlier in the year, TruEnergy entered into a Memorandum of Understanding with Ignite Resources. The two companies will build a demonstration plant, which uses a supercritical water reactor to convert lignite to an oil equivalent liquid and dry coal. The plant should be operational by mid 2010.

Industry Comparisons

The table below lists both underground and aboveground coal gasification companies. As with the coal seam gas peers, the companies displayed are at various stages of development. Once a successful pilot has been completed, a significant re-rating by the market occurs. As with its coal seam gas project, we believe that the market is ascribing little to no value for Strike's FuturGas Project, even though considerable technical work has been completed and the potential upside is large.

Fig. 12:Coal Gasification Peers

ASX Code	Enterprise Value	Project Phase
LNC	$712m	Successful CTL pilot plant demonstration. Engineering agreement with Aker Solutions to build commercial scale plant.
CNX	$341m	Successful UCG pilot well. 5MW power plant in development.
CXY	$82m	Process wells installed, testing 1H 2010.
STX	$65m#	JORC resource, successful gasification trials.
RER	$25m	Approvals lodged for pilot test.
CGV	$12m	Recently listed, exploration phase
BLK	$7m	JV with Wesfarmers, JORC resource
SYS	$7m	Bankable feasibility scheduled for completion 2012

Source: Hartleys, #$47m value of producing assets included in Enterprise Value

FINANCIAL ANALYSIS

ASSUMPTIONS

Fig. 13 details the exchange rate and commodity price forecasts used in our modelling.

Fig. 13:Price and FX Assumptions

		H1 CY09	H2 CY09	CY10	CY11	CY12+
AUDUSD	A$/US$	0.71	0.83	0.75	0.80	0.75
Oil Price	US$	49.90	69.1	70	80	85
US Gas Price	US$/mcf	4.10	3.60	6.25	7.00	7.00

Source: Hartleys

VALUATION

Rayburn

Hartleys' valuation of Rayburn is based on a discounted cash flow model and only includes success from the Middle Wilcox formation. It should be noted that potential from other stacked pay exists in the region.

The valuation assumes production from 7 wells, with ultimate recovery of 8bcf per well from initial flow rates of 8.0 mmcf/d and associated condensate at a rate of 25boc per mmcf. Completed well costs are assumed to be US$6m, with ongoing opex at US$0.50 per mcf.

A 36.5% effective tax rate is assumed, comprised of 35% corporate tax with 1.5% state tax.

Production rate decline means that 75% of ultimate recovery is produced in the first 2-3 years, after which the decline is relatively flat.

These assumptions generate a valuation for the Middle Wilcox at Rayburn at A$43.4m or 13cps.

Mesquite

Fiscal regime assumptions at Mesquite are the same as at Rayburn.

The Mesquite project is assumed to produce another 2.2bcf (gross) over 3.5 years, steadily declining from current production rates of 2.5mmcf/d. Opex is the same as at Rayburn and no further wells have been modelled.

This values Mesquite at A$2.45m or 1cps to Strike.

PEL 96

In our valuation of PEL 96, we have assumed 40% recovery of the low case estimate of net in place resource of 5,000PJ. We have then placed a value on this of $0.50 per mcf and a probability of success of 5% to arrive at a valuation of $33.3m or 10cps.

We have also modelled a 15TJ/d project as part of a Phase 1 development using cost assumptions of $3m per year fixed opex and capex of $3m per well with $25m start-up capex, which gives an NPV10 valuation of A$50m or 15cps.

Both of these valuations are very conservative given that the upside potential (unrisked) of the permit for Strike could be several billion dollars.

FuturGas Project

Our valuation of Hybrid assumes an open cut mine and full scale production plant, with capex of $1.1b. Opex is assumed at A$40 per barrel of fuel produced. Production of 10,000 barrels of fuel is assumed to commence in 2016.

These assumptions result in a DCF valuation of ~$387m, which we have further discounted by 90% for technical risk and uncertainty to arrive at a valuation of $38.7m or 12cps.

Exploration

Strike has significant exploration potential, both in the USA and in Australia. These have been valued on a risked basis using the assumptions set out in Fig. 14 below.

Fig. 14: Exploration and Appraisal Valuation

Prospect / Project	Location	Mean Net Recoverable Resource	NPV per bbl	POS *	Risked Value	Risked cps	Unrisked (high case) cps
Baniyas	Carnarvon Basin	9.6mmbbls oil	A$25/bbl	10%	A$24m	7.2cps	72cps
Rayburn	Gulf Coast	36.5bcfe gas	A$2.50/mcf	10%	A$9.1m	2.7cps	27cps
Other Gulf	Gulf Coast	160bcf gas 4mmbbls cond	A$2.50/mcf A$25/bbl	10%	A$50.7m	15.1cps	151cps
Rivoli	Carnarvon Basin	6.2bcf gas	A$2.50/mcf	40%	A$6.2m	1.9cps	5cps
Total					**A$89.8m**	**27cps**	**255cps**

Source: Hartleys, * Probability of Success

Strike has also recently announced that it is seeking finalisation of Native Title agreement over PELA 71, which is located 27km to the west of PEL 92 where several recent oil discoveries have been made.

Valuation Summary

Fig. 15: Valuation Summary

	$m	$/share
Rayburn (NPV @ 10%)	42.4	0.13
PEL 96 (Risked Valuation)	33.4	0.10
Mesquite (NPV @ 10%)	2.4	0.01
Exploration	89.8	0.27
Hybrid (NPV @ 10%)	38.8	0.12
Cash	16.0	0.04
Corporate Overheads	(14.9)	(0.04)
Total Debt	(5.8)	(0.02)
Tax Losses	0.0	0.00
Options & Other Equity	3.16	0.01
Total	**206.49**	**0.62**

Source: Hartleys

CONCLUSION

Strike has core asset value of 17cps, underpinned by cashflow positive producing assets located onshore in the US. The Company also has exploration potential in the US of greater than 175cps, with a strong track record of discovery. The US business alone is enough to justify a valuation in excess of the current share price. Exploration drilling, scheduled to commence in December 2009, could add an additional 60cps of value. Strike also has an attractive asset pipeline that includes several assets that could also be transformational for the Company.

The most recent addition to the portfolio, a coal seam gas asset in PEL 96 located in the Southern Cooper Basin, has substantial potential that has not yet been recognised by the market. Core hole drilling early next year will provide evidence of the size of this potential and could significantly re-rate the Company. Other listed companies with similar calibre coal seam gas assets are trading at much higher valuations, indicating opportunity for considerable returns on an investment in Strike at these levels.

Strike's coal gasification asset, FuturGas, may also be viewed more favourably by the market in light of the recent deals that have been done in the sector. Multi-billion dollar companies are looking to gain a foothold in this resource/technology play that is likely to form a significant part of the world's future energy equation. As with the coal seam gas asset, there are several listed companies trading at appreciably higher market capitalisations and we believe that it is only a matter of time before the FuturGas asset's potential is also recognised by the market.

Given the very large upside potential for the Company from several assets and the limited downside provided from reserves and production in the US, we recommend **Strike Oil Ltd** as a **Buy**. We consider our price target of 37cps to be conservative and are confident that the Company will realise a significant portion of the >500cps unrisked potential in its asset portfolio over the coming years.

HARTLEYS RESEARCH COVERAGE LIST

Hartleys Research Coverage Name		Ticker	Last Price*	M. CAP (A$m)	EV (A$m)	Hartleys Research Recommendation	Industry
	Oil & Gas						
1.	Woodside Petroleum Ltd	WPL	49.60	34,648	37,545	Buy	Major
2.	Eastern Star Gas Ltd	ESG	0.875	714	636	Buy	Producer / Explorer
3.	Carnarvon Petroleum Ltd	CVN	0.550	375	341	Buy	Producer / Explorer
4.	Nexus Energy Ltd	NXS	0.355	334	515	Speculative Buy	Developer / Explorer
5.	Tap Oil Ltd	TAP	1.05	164	110	Buy	Producer / Explorer
6.	Red Fork Energy Ltd	RFE	1.03	141	113	Buy	Explorer / Producer
7.	Cooper Energy Ltd	COE	0.455	133	37	Buy	Producer / Explorer
8.	Amadeus Energy Ltd	AMU	0.295	88	119	Buy	Producer / Explorer
9.	Strike Oil Ltd	STX	0.235	77	70	Buy	Explorer / Producer
10.	Oilex Ltd	OEX	0.335	75	55	Speculative Buy	Explorer / Producer
11.	European Gas Ltd	EPG	0.165	33	97	Speculative Buy	Producer / Explorer
12.	Sun Resources NL	SUR	0.084	28	19	Speculative Buy	Explorer / Producer
13.	First Australian Resources Ltd	FAR	0.043	28	8	Speculative Buy	Explorer / Producer
14.	Adelphi Energy Ltd	ADI	0.135	20	13	Speculative Buy	Junior
			Sub-Total	36,859	39,679		
	Resources						
1.	Riversdale Mining Limited	RIV	5.72	1,078	752	Speculative Buy	Coal
2.	Western Areas NL	WSA	4.960	834	1,071	Buy	Nickel
3.	Atlas Iron Limited	AGO	1.82	725	675	Buy	Iron Ore
4.	Medusa Mining Limited	MML	3.400	574	541	No Rating	Gold
5.	Dominion Mining Limited	DOM	3.640	375	423	Speculative Buy	Gold
6.	Jabiru Metals Limited	JML	0.435	238	218	Buy	Zinc-Copper
7.	Gold One International Limited	GDO	0.315	226	141	Buy	Gold
8.	Silver Lake Resources	SLR	0.830	148	127	Speculative Buy	Gold
9.	Intrepid Mines Limited	IAU	0.340	145	98	Speculative Buy	Gold
10.	Magma Metals Limited	MMB	0.690	112	92	Speculative Buy	PGM-Cu-Ni
11.	Peninsula Minerals Ltd	PEN	0.051	69	55	Speculative Buy	Uranium Developer / Explorer
12.	Emmerson Resources Limited	ERM	0.310	63	51	Speculative Buy	Junior Explorer
13.	Orion Gold NL	ORN	0.067	50	46	Speculative Buy	Gold
14.	Ausquest Limited	AQD	0.175	40	14	Speculative Buy	Junior Explorer
15.	YTC Resources Limited	YTC	0.230	35	23	Buy	Junior Explorer
16.	Shaw River Resources Limited	SRR	0.230	30	27	Speculative Buy	Junior Explorer
17.	Impact Minerals Limited	IPT	0.275	26	22	Speculative Buy	Junior Explorer
18.	Hazelwood Resources Ltd	HAZ	0.215	22	20	Speculative Buy	Junior Explorer
19.	Southern Gold Limited	SAU	0.100	12	10	Speculative Buy	Junior Explorer
			Sub-Total	4,743	4,354		
	Industrials						
1.	West Australia News Hdgs Ltd	WAN	7.68	1,655	1,958	Buy	Media
2.	Monadelphous Group Limited	MND	13.550	1,150	1,020	Neutral	Mining Services
3.	Clough Limited	CLO	0.810	541	587	No Rating	Oil & Gas Services
4.	Mermaid Marine Australia Ltd	MRM	2.750	501	553	Buy	Oil & Gas Services
5.	Macmahon Holdings Limited	MAH	0.625	459	460	Speculative Buy	Mining & Civil Construction
6.	Austal Limited	ASB	2.400	451	357	Speculative Buy	Capital Goods
7.	NRW Holdings Ltd	NWH	1.63	408	448	Buy	Mining & Civil Construction
8.	Fleetwood Corporation	FWD	7.66	396	407	Buy	Consumer & Mining Services
9.	Neptune Marine Ltd	NMS	0.830	369	343	Buy	Marine Services
10.	Ausdrill Limited	ASL	1.73	362	584	Buy	Onshore Drilling & Mining
11.	Cash Converters Limited	CCV	0.560	204	155	Buy	Retail & Consumer Finance
12.	Southern Cross Electrical	SXE	1.61	193	170	Buy	Mining & Civil Construction
13.	Imdex Ltd	IMD	0.905	175	197	Buy	Oil & Gas / Mining Services
14.	Decmil Group Limited	DCG	1.38	162	144	Buy	Mining & Civil Construction
15.	RCR Tomlinson Ltd	RCR	1.180	153	202	Buy	Mining & Industrial Services
16.	VDM Group Limited	VMG	0.600	126	161	Buy	Mining & Civil Construction
17.	Nomad Building Solutions Ltd	NOD	0.840	114	140	Neutral	Residential & Mining Services
18.	Lycopodium Limited	LYL	2.82	107	103	Neutral	Mining & Industrial Services
19.	GRD Limited	GRD	0.535	103	138	Buy	Mining & Civil Services
20.	Swick Mining Services Ltd	SWK	0.575	88	141	Buy	Mining Services
			Sub-Total	7,717	8,270		
			GRAND TOTAL	49,319	52,302		

Source: IRESS, Hartleys Research. * 29 Oct 2009

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Hartleys Recommendation Categories

No Rating	No recommendation.
Buy	Share price appreciation anticipated
Speculative Buy	Share price appreciation anticipated but it is higher risk than a "Buy". For the share price to rise it may be contingent on the outcome of an uncertain or distant event.
Neutral	Take no action. Stock is already trading near the share price target and there are no foreseeable near term catalysts.
Reduce / Take profits	Stock is trading above the share price target and there is a near term negative catalyst that could cause temporary weakness.
Sell	Significant price depreciation anticipated

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